EAST CAMBRIDGESHIRE DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE

NOVEMBER 2018

EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Date**: 29th November 2018**

Introduction

1.1 LGSS provides the Internal Audit service for East Cambridgeshire District Council and has been commissioned to provide 210 days to deliver the 2018/19 Annual Audit Plan.

1.2 The Public Sector Internal Audit Standards (the Standards) require the Resources and Finance Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the council. This report aims to provide the committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last committee meeting and an overview of the performance of the audit team.

Performance

2.1 **Delivery of the 2018/19 Audit Plan**

At the time of reporting, eight assignments from the 2018/19 Audit Plan have been completed to at least draft report stage and good progress is being made on a number of further assignments.

Progress on individual assignments is shown in Table 1.

2.2 **Are clients satisfied with the quality of the Internal Audit assignments?**

To date, eight survey responses have been received in relation to feedback on assignments, all with a rating of 'Outstanding' or 'Good'. A summary of responses is provided in Table 2.

2.3 **Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

Since the start of the new financial year, six audit reports from the 2018/19 audit plan has been finalised. To date, this has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings were as follows:

Counter Fraud Procedures

The Better Governance Forum and CIPFA Counter Fraud Centre have developed a tool designed to help councils measure their arrangements against the Code of Practice on Managing the Risk of Fraud and Corruption (the Code). As part of the review of the Council's overall counter fraud arrangements Internal Audit applied the tool based on its cumulative knowledge of the Council with input from the Finance Manager & S151 Officer and the Legal Services Manager & Monitoring Officer where necessary.

The review identified that overall, the Council has reached a reasonable level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This includes having adequate arrangements in place against most of the performance criteria that are fundamental to the management of fraud and corruption risks. The arrangements are generally proportionate to the Council's risks and resources. There remain a number of key

areas where performance could be improved, and enable even a small Council with limited capacity in terms of fraud resources to achieve a good standard of performance.

This assessment was supported by Internal Audit as an advisory or 'added value' service for the Council and consequently no assurance opinion was given.

Invoices over £500

All teams across the Council rely on goods and services to enable them to deliver their core services. These can range from basic and low value items, such as stationery, to high value and complex items or services, such as capital infrastructure or innovative technology. The Council's Contract Procedure Rules (CPRs) set out the regulatory and legal framework for procurement that should be followed, and these are included within the Council's Constitution. These were reviewed during the financial year 2017/18 and formally approved by Full Council on 5th October 2017.

The overall objective of this review was to ensure that officers comply with Contract Procedure Rules when procuring goods and services in order to achieve value for money and to ensure compliance with the data transparency requirements to publish all payments to suppliers over the value of £500.

The review involved a sample of 20 payments made over the value of £500 during the period April to June 2018. The approach was then to work backwards through the commissioning process that was followed by officers in making the purchases, to confirm that Contract Procedure Rules current at the time the procurement took place had been complied with, and that value for money had been achieved. Testing identified some areas of non-compliance including four contracts which had not been recorded on the contracts register and one case where a formally approved exemption form was not found for awarding a contract without competition. Based on the outcome of the testing performed, the assurance opinions given by Internal Audit were as follows:

Assurance Opinion		
Control Environment	**Good**	🟢
Compliance	**Limited**	🔴
Organisational Impact	**Minor**	🟢

Agency Staff Compliance – IR35

Robust systems and controls for ensuring compliance with relevant tax and employment legislation are essential elements of the Council's overall financial management arrangements. IR35 is intended to stop 'disguised employment' whereby staff are appointed 'off payroll' through companies or similar trading arrangements that avoid the need to make tax and other deductions at source or to pay employers national insurance contributions. The employee is also potentially able to benefit from a reduced tax bill. IR35 has been in place

since 2000 but from April 2017 the responsibility for determining whether the rules apply in public sector organisations shifted from the contractor to the hiring organisation – as such, this was the focus of the audit.

The Council's arrangements for the identification and assessment of cases within the scope of IR35, at the time of the audit, were not fit for purpose. There was reliance on individual Service Leads being aware of their responsibility to undertake the relevant pre-appointment checks as there was no central monitoring and recording of cases potentially within the scope of IR35. Testing of a sample of appointments identified that in 60% of cases there had been no assessment undertaken to determine whether or not individual appointments were within the scope of IR35.

It was recommended that a formal policy, procedure or guidance on the Council's approach to off-payroll workers be developed – this has already been implemented at the time of reporting.

Based on the outcome of the testing performed, the assurance opinions given at the time of the audit were as follows:

Assurance Opinion		
Control Environment	Limited	🔴
Compliance	Limited	🔴
Organisational Impact	Minor	🟢

Scheme of Delegation Compliance

The Council's Constitution should set out how the Council operates, how decisions are made and the procedures that are followed to ensure that the Council's operations are efficient, transparent and accountable. The Scheme of Delegation specifically, should explain who can take which decisions on behalf of the Council.

The Council's Scheme of Delegation is included in Part 3 of the Constitution. The review has identified some areas where the Scheme of Delegation is not up to date. It is the responsibility of Service Leads to notify the Legal Services Manager and Monitoring Officer of any amendments to ensure that it is kept up to date. A more formal approach should be implemented to ensure that it properly reflects both the current legal and organisational position.

There are decisions that are reserved for Member approval, for example, in relation to specific types of planning applications, write offs and the award of some grants. Internal Audit were able to independently identify a sample of these decisions and confirmed that the Scheme of Delegation had been complied with in each case.

Based on the outcome of the testing performed, the assurance opinions given by Internal Audit were as follows:

Assurance Opinion		
Control Environment	Good	🟢
Compliance	Good	🟢
Organisational Impact	Minor	🟢

Business Continuity Management

Business continuity is a management process that provides a framework to ensure resilience of an organisation to any eventuality and to help ensure continuity of service to its key customers. It provides the basis for planning to ensure East Cambridgeshire District Council's ability to continue operations following a disruptive event. Successful business continuity arrangements help to minimise disruption from such incidents and reduce the time needed to recover from an incident.

The Council's approach to business continuity management is facilitated by the Health & Safety / Emergency Planning Manager, approved by Corporate Management Team and overseen by the Corporate Risk Management Group. The objective of this review was to provide management with assurance over the Council's plans and supporting procedures to enable continuity of key service delivery in the case of unforeseen incidents.

Emergency planning and business continuity is identified as a risk in the Council's corporate risk register (Risk C1) and identifies the Business Continuity Plan as a key control in reducing the inherent risk score. The Council has recently approved a Strategic Business Continuity Plan (August 2018) which identifies its mission critical activities and the resources they require to operate over time. This is in the progress of being cascaded down through the organisation and officer training is currently being delivered.

Based on the outcome of the testing performed, the assurance opinions given by Internal Audit were as follows. The assurance opinions reflect the position at the time of the audit in terms of the recently approved Strategic Business Continuity Plan:

Assurance Opinion		
Control Environment	Satisfactory	🟡
Compliance	Satisfactory	🟡
Organisational Impact	Moderate	🟡

2.4   **Implementation of audit recommendations by officers**

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation. In order to provide the Committee with assurances that these actions are being implemented in a timely and effective manner, a more robust follow up process has been implemented for the 2018/19 financial year.

Since 1st April 2018, 36 agreed actions have been implemented by officers. An overview is provided in Table 3.

At the time of reporting, there are six actions which are overdue for implementation. Of these, four were assessed as 'High' or 'Medium' priority and have been overdue for more than three months. As such, further details are provided in Table 4.

Table 1 - Progress against 2018/19 Internal Audit Plan

Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
						Assurance Opinion			
Governance & Counter Fraud									
Counter Fraud Procedures		Q2	**Final report issued**		*To review the Council's counter fraud policies and procedures against best practice and to review their robustness in light of latest trends / developments.*	Consultancy			See para 2.3
National Fraud Initiative		Q3	Fieldwork			Consultancy			Data upload completed with the exception of SPD data due December 2018.
Risk Management support		Q1 – Q4	In progress			Consultancy			
Annual Governance Statement		Q1	**Complete**		*Not applicable*	Consultancy			
Key Financial Systems									
Bank Reconciliation		Q3	Planning						
Creditors		Q4	Planning						
Debtors		Q4	Planning						
Payroll		Q4	Planning						

Assignment		Planned start	Status		Assurance sought	Assurance Opinion			Comments
						Control Environment	Compliance	Org impact	
Treasury Management		Q3	**Draft report issued**						
Budgetary Control		Q3	Fieldwork complete						
Making every penny count									
Invoices over £500		Q2	**Final report issued**		*To ensure compliance with contract procedure rules and achievement of value for money.*	**Good** 🟢	**Limited** 🔴	**Minor** 🟢	See para 2.3
Key policy compliance									
Agency Staff Compliance – IR35		Q1	**Final report issued**		*To provide assurance over compliance with key Council policies and procedures, based on sample testing.*	**Limited** 🔴	**Limited** 🔴	**Minor** 🟢	See para 2.3
Scheme of Delegation compliance		Q1	**Final report issued**		*To provide assurance over compliance with key Council policies and procedures, based on sample testing.*	**Good** 🟢	**Good** 🟢	**Minor** 🟢	See para 2.3
Risk based audits									
Local Authority Trading Company		Q3	Planning						
Business Continuity Management		Q1	**Final report issued**		*To provide assurance over the Council's plans and supporting procedures to enable*	**Satisfactory** 🟡	**Satisfactory** 🟡	**Moderate** 🟡	See para 2.3

| Assignment | | Planned start | Status | | Assurance sought | Assurance Opinion | | | Comments |
						Control Environment	Compliance	Org impact	
					continuity of key service delivery in the case of unforeseen incidents.				
Waste Management		Q3	Fieldwork underway						
Taxi Licensing checks		Q1	**Final report issued**		*To provide assurance that the Council is fulfilling its safeguarding duties in ensuring suitable checks are conducted before issuing of Hackney and private hire licences, to ensure holders are 'fit and proper' and that vehicles are roadworthy.*	**Good** 🟢	**Substantial** 🟢	**Minor** 🟢	Previously reported
ICT and Information Governance									
Controls review of critical systems / Cyber Security		Q2	Planning						
Information Governance and GDPR		Q2	Fieldwork complete						

Table 2: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. The responses received in the year to date are set out below.

Responses	Outstanding	Good	Satisfactory	Poor
Total	2	6	-	-

Table 3 - Implementation of Audit Recommendations

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and **implemented** since last Committee meeting	5	83%	11	79%	20	92%	36	86%
Actions **overdue by less than three months**	-	%	-	%	1	4%	1	2%
Actions **overdue by more than three months**	1	17%	3	21%	1	4%	5	12%
Totals	**6**	**100%**	**14**	**100%**	**22**	**100%**	**42**	**100%**

Table 4 – Actions overdue more than three months (high and medium priority)

Audit plan	Audit title	Agreed action	Priority	Responsible officer	Date for implementation	Officer update / revised date
Information Governance						
2016/17	Information Governance	Refresh and promote the information security policy	High	ICT Manager	01/12/2017	November 18: This has been assigned to an officer who is currently reviewing the Information Security Policy. We have put a target date for the review and revised document to be ready for **April 2019.**
Safeguarding						
2016/17	Safeguarding	Review of Policies and Procedures	Medium	Housing and Community Safety Manager	01/06/2017	February 18: There have been capacity restraints within the team over the last year, as a result the H&CSM has had to put some of the strategic tasks to one side to pick up the operational front line tasks. The H&CSM stated that the policy has been updated to reflect current legislation (Care Act 2014). August 18: has been updated and verified. _Audit note_: awaiting evidence to support implementation.

Audit plan	Audit title	Agreed action	Priority	Responsible officer	Date for implementation	Officer update / revised date
2016/17	Safeguarding	Review and update the Designated Safeguarding Officers (DSO) list	Medium	Housing and Community Safety Manager	01/07/2017	February 18: Training will be delivered (date to be confirmed) a half day session is to be delivered to all staff as a compulsory measure with key officers receiving refresher training annually. Aug 18: completed and will be refreshed annually. *Audit note*: awaiting evidence to support implementation
2016/17	Safeguarding	Guidance and safeguarding refresher training provided to staff	Medium	Housing and Community Safety Manager	01/07/2017	As per above: this will be an annual exercise. Aug 18: completed and will be refreshed annually. *Audit note*: awaiting evidence to support implementation

Notes

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances		
Level	**Control environment assurance**	**Compliance assurance**
Substantial 🟢	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good 🟢	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory 🟡	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited 🔴	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No 🔴	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level	**Definition**	
Major 🔴	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.	
Moderate 🟡	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.	
Minor 🟢	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.	

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Resources and Finance Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:
- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.